

## PREFATORY NOTE

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Federal Open Market Committee

Conference Call

January 14, 1983

PRESENT: Mr. Volcker, Chairman  
Mr. Balles  
Mr. Black  
Mr. Ford  
Mr. Gramley  
Mrs. Horn  
Mr. Martin  
Mr. Partee  
Mr. Rice  
Mrs. Teeters  
Mr. Wallich

Messrs. Guffey, Keehn, Morris, and Roos  
Alternate Members of the Federal Open Market  
Committee

Mr. Boehne, President of the Federal Reserve Bank  
of Philadelphia

Transcript of Federal Open Market Committee Conference Call  
of January 14, 1983

MR. ALTMANN. To make sure that all the Presidents are on the line, I'll be calling the roll by Reserve Bank. Please respond by identifying yourselves so we know for sure who is on, given this new system we're using. [Secretary's note: Mr. Altmann then called the roll and all Reserve Banks were represented except Cleveland.]

CHAIRMAN VOLCKER. Everybody's on here?

MR. PARTEE. Cleveland is missing.

CHAIRMAN VOLCKER. I think we might as well proceed with Mr. Axilrod telling us where we are.

MR. AXILROD. Mr. Chairman, I'd like first to give the clearest thing I can give, which is where we've been. For the fourth quarter of 1982, the Committee had an objective for M2 of around 9-1/2 percent and for M3 [of about 8 percent]. The actual results are that M2 did grow 9-1/2 percent from September to December and M3 grew 7 percent. So, in terms of the fourth-quarter objectives that were set at the beginning of the fourth quarter, those are the latest numbers. We will be publishing the December figures today and they will show for M1 an increase of 9.1 percent, which will give us an increase for the year of 8-1/2 percent; they will show an M2 increase of 8-1/2 percent, which will give a yearly increase of 9.9 percent; and they will show an M3 increase of only 2.3 percent, which will give a yearly increase of 10.4 percent. We believe the M2 increase in December was impacted to a sizable degree by the money market deposit accounts. As of the latest specific data we have, which is the week of January 5th, these money market deposit accounts had grown to a level of \$111 billion. Making a reasonable estimate for the [week of the] 12th from the savings deposit figures we have, which include the MMDAs, would conservatively put them at a level of \$130 billion. So, they're coming very close already to the level that the staff had assumed was consistent with a 3 percent shift adjustment for the first quarter. That is, if your underlying--

MR. ALTMANN. Excuse me. Could you hold it a minute. Let me see who's coming in on this other line.

SPEAKER(?). Cleveland operator for Mr. Altmann.

MR. AXILROD. With this rapid growth in the MMDAs, we made a very definite attempt, based on what are rather rough data, to see how much of those funds shifted out of non-M2 sources. The only way we can do it at the moment is by a residual method. It involves going through the M2 weekly data, which aren't necessarily complete, and deciding what they otherwise would have done and seeing what they did, and then assuming that that difference goes into MMDAs. That then leaves a residual that comes from market sources. Our estimate of the amount that would have come from market sources in December would tend to raise M2 growth on the order of 3 to 4 percentage points at an annual rate. So that would suggest, if that number is right, that underlying M2 growth was somewhere around 5 to 5-1/2 percent in December. We've also looked at December in other ways. We have taken the nonpersonal MMDAs out of M2 just to see what that would have

given; and that would have produced a 4-1/2 percent rate of growth in M2 in December. That assumes nonpersonal MMDAs are something like large CDs; that's probably not right because they include other kinds of things such as business savings deposits, but that would have been the result for M2 growth in December. We have a survey in which we began to get data on MMDAs maturing in 7 days or more that are over \$100,000. That survey has not indicated that there are very many of those. The first week's data show only \$100 million, so that wouldn't have any effect on M2. Looking ahead, given the strength that we now have, because the growth in December was very rapid in M2--

CHAIRMAN VOLCKER. We have an interruption here for some reason.

MR. ALTMANN. President Horn, are you there?

MS. HORN. Hello. Yes, this is Karen.

MR. ALTMANN. Okay, thank you. We're in process.

MR. AXILROD. We had, of course, more rapid growth in December in the MMDAs than was implicit in the Committee's target, or really even in the staff's estimate. As I said, we have virtually reached the midpoint of the staff's estimated range now; we're very close to it. Unless this slows down perceptibly or very rapidly, it's growing at least more toward the upper ends of the staff's estimates and probably well above what had been included in the 9-1/2 percent M2 growth that the Committee voted on, which included a modest increase in shifts. Given what happened in December, that carries through somewhat into January because the level is being raised very rapidly; and simply carrying through that higher level raises the growth for the quarter on our estimate of the shift by about 2 points. So, that alone would raise the 9-1/2 percent to roughly 11-1/2 percent without shifts being even greater from there on in than [assumed] in the Committee target. So, without an ability at this point to be extremely specific, I would say that fairly clearly, for reasons of the shifts, we're running above the 9-1/2 percent. To get at the so-called underlying strength of M2--[to determine] whether we're running above because of underlying strength as well--is really very difficult. Given what we have so far in January and assuming over the balance of January increases in M2 that are normal, as if there were no shifts--in the \$2 or \$3 billion or \$4 billion range weekly--we come out with a very high M2 in January. To give you a rough idea of the range of possibilities, we have [an estimate] on the order of 28 percent; the New York estimator has [an estimate] on the order of 20 percent. So, I think growth somewhere in the 20 to 30 percent range here is certainly more than possible, it's probable.

MR. GRAMLEY. This is after allowance--

MR. AXILROD. No, gross.

MR. GRAMLEY. Gross.

MR. AXILROD. And 7-1/4 points of that is simply carrying through the December level that had been shifted. Given our estimate of the amount that shifted--from this residual method we've assumed 16 percent of the MMDAs are shifted--and our projection for January over

the balance of the month, we would be reducing that 28 percent by only 11.6 percentage points. The reason I'm that specific is that that looks way too high as a January underlying [growth rate]. It just doesn't make sense. So we tried to undertake some [analysis of] the numbers to see how sensitive things were. And it's so sensitive that it's very difficult to guide ourselves in any very technical way. If we had assumed that 25 percent shifted out of market instruments, which is not unreasonable--one could get that out of the numbers and I'm told that some market people think it's that high--then we would be subtracting 17 to 18 points at an annual rate in January from the actual growth. So, [the rate of growth] is very sensitive to what one thinks has shifted, and we don't have a particularly firm way of coming up with an estimate of the amount of the shift.

CHAIRMAN VOLCKER. Which seems to be the understatement you have made!

MR. AXILROD. But, Mr. Chairman, the one thing I can say to the Committee with a reasonable degree of certainty is that the 9-1/2 percent is too low relative to the amount of shift we've already seen. So from that alone one would expect growth above 9-1/2 percent, and there is some growth above that that represents shift.

MR. GRAMLEY. It's further shift?

MR. AXILROD. The shift we've already seen. The shift we've already seen adds 2-1/2 points to the first quarter. If you had an 8 percent underlying growth, it would be at 10-1/2 percent; and I think the Committee added roughly another one in there, so that got me to 11-1/2 percent.

MS. TEETERS. Steve, of the \$130 billion you're estimating for January 12th, in dollar terms how much of it came out of non-M2 components?

MR. AXILROD. It's 16-1/2 percent of that. All I have here are growth rates that have been translated from it. But it's 16-1/2 percent of that number. What we worked out through January 5th was a specific number of \$18 billion.

CHAIRMAN VOLCKER. After that enlightening discussion of M2, what is going on with M3?

MR. AXILROD. For M3, we've had a considerable weakness in large CDs, so we had that weak December growth. And it looks as if growth in M3 in January will strengthen considerably, largely because of this huge M2. If M2 is up in the 20 to 30 percent range, I would assume that something like at least half of the growth will be in M3. And we're assuming large CDs are not going to be quite as weak as they were. So, partly from the carry-through effect on that, we get a very large M3.

Mr. Chairman, there's one other point I should make and that is with regard to M1. I'm afraid, again, that all it's going to show is how little we can say about these numbers. We're publishing a \$300 million decline for the week of January 5th. But in the week of January 12th, for which we do have preliminary data--and that's the first full week of Super NOW accounts--our preliminary data show a

\$6.6 billion increase. One would think that that might be the Super NOW account effect, and maybe it will turn out to be that. I'll get separate weekly data on Super NOWs a week from today for these few weeks. But in the week of the 12th the figures show the seasonally unadjusted NOW accounts increased only \$2.7 billion, little different from their increase in the previous week. So the seasonal factor is transforming this into a fairly big increase.

MR. GRAMLEY. Does that include the Super NOWs?

MR. AXILROD. Yes, they are in there. It doesn't look strong. And the old M1-A in that week is increasing \$1.8 billion on these preliminary numbers. So it's not clear from the data that we're having any substantial effect from the Super NOWs as of now. We have built some effect into the rest of January on that assumption; that's why we have a January estimate, based on what we have through the 12th for M1, on the order of 15 percent. We've assumed some further rather moderate increase in the course of the month from the Super NOWs; if the Super NOWs take off, we'd have a much bigger number.

MR. ROOS. Wouldn't that mean, Steve, if the Super NOWs don't take off, that M1 adjusted would be a more reliable target than either M2 or M3?

MR. AXILROD. I don't have an M1 adjusted. I did not work through these data, such as they are. M1 adjusted is affected in another way; some of the M1 would go into MMDAs.

CHAIRMAN VOLCKER. What is M1 adjusted?

MR. AXILROD. I assumed President Roos was thinking of some sort of shift-adjusted M1. We don't have one. What I was trying to say was that Super NOWs would tend to increase M1 but the shifts into MMDAs would tend to decrease it. We assume very little shift into MMDAs from M1 because we couldn't see much actual change--an overt obvious effect--in the weekly figures. If you had assumed that M1 was otherwise even stronger than we had in December, then you could put a lot of shift in. We were reluctant to make that assumption. So, I have not worked through to get at what M1 would look like if you abstracted from all these shifts, which affect it in different directions.

MR. BALLE. Steve, you might be interested to know that at our board meeting yesterday the bank directors from all around the West were pretty unanimous in the view that so far the Super NOWs have been essentially a nonevent. Banks weren't promoting them very heavily nor were customers very interested, and not much was going on.

MR. AXILROD. That's [about] what our one week of data suggested.

MR. BLACK. The same is true in Richmond.

MR. GUFFEY. The same is true in Kansas City.

MR. BOEHNE. Also Philadelphia.

MR. FORD. Ditto Atlanta.

CHAIRMAN VOLCKER. Who can make sense out of all these figures?

MR. BALLE. We were counting on you!

CHAIRMAN VOLCKER. Well, if you're counting on me, you're premature in getting any answer at the least. I think this is terribly confusing analytically and factually. It just makes our job in following these figures worse than it looked like [it would be] at the Committee meeting, I would say. Beyond that, I don't know what to conclude other than that it's more difficult. All these figures look high; I don't deny that. Whatever kind of adjustment one makes-- unless there's something that we're missing here entirely--it's hard to say they look on the low side. I'm a little surprised about what you said about M3 in January; to the extent that this shift in M2 comes out of M3, which some of it certainly does, you just don't add the bulge in M2 on to the M3 figure.

MR. AXILROD. No, that's right.

CHAIRMAN VOLCKER. And the latest data you had for M3 were not particularly strong, were they?

MR. AXILROD. Well, I was looking at the large time deposits. We're assuming a drop in the course of January--

CHAIRMAN VOLCKER. Forget everything you're assuming. Assumptions aren't very good these days. The last figures on M3 are not nearly as strong as the M2 figures, are they?

MR. AXILROD. In December, that's right.

CHAIRMAN VOLCKER. I know December, but haven't you anything for January?

MR. AXILROD. We don't really have weekly M3 data. Well, I have sort of an experimental look and based on that they tend to go up. They are very strong in the first 2 weeks largely because--if you believe what I have for the first two weeks in January--we have a \$39 billion increase in M2 and the M3 increase is \$23 billion. It's not a bad relationship; that is, you're taking off \$16 billion of the stuff in [unintelligible]. That's why I said if M2 is really going to be up in the 20 percent range, M3 would be high.

MR. GRAMLEY. You must be looking at an increase on average in January of maybe \$40 billion in MMDAs--December-to-January. If we had 10 percent of the increase in MMDAs coming from market securities, that's \$4 billion that comes out of market securities. Multiply that by 12 and you get a [\$48] billion dollar annual rate of increase, and that's a lot in M3.

CHAIRMAN VOLCKER. He was assuming more than that.

MR. GRAMLEY. Yes, I know. That's why I say if only 10 percent came from that amount--.

CHAIRMAN VOLCKER. Well, he's assuming more than that. The figure isn't all that low to say the least.

MR. AXILROD. We have [assumed] more out of market securities than out of large time. Who knows how that will work out! As I say, it's a pretty big reduction in the components of M3. But it can't offset the big increase in M2 entirely, by any means.

MR. PARTEE. Well, Steve, we could have a big decline in CDs. That is, I would think that a well funded bank would simply let its large CDs run off. Now, maybe you need to include Federal Home Loan Bank borrowing in the adjustment there too, because some of it has gone to savings and loans. And they may be letting their own Home Loan Bank borrowings go down pretty fast.

MR. GRAMLEY. But you can't adjust CDs that rapidly. At least it seems to me that if they are not maturing right away--

MR. PARTEE. But usually the maturity schedules have shown quite a concentration in short maturities.

MR. AXILROD. Well, in the week of December 22nd, the rate of decline in large CDs in the net component of the money stock, after it abstracts from the money market fund holdings, was \$6 billion. Well, when we started this in the week of December 15th, it was \$1.7 billion; then the [first] full-week effect was \$6 billion; then in the week of the 29th it dropped to \$3.1 billion; in the week of January 5th it dropped to \$1 billion. We have a much bigger drop coming up; we estimate a drop of \$7 billion in the week of the 12th and then we stay with declines of \$3 billion. We're not really out of the pattern here at all, so it could drop sensationally more but it would have to be quite a sensational drop.

MR. BALLE. Steve, John Balle. I have a bit of anecdotal evidence from a California bank president's group that I am meeting with and talked to last night. A number of banks on the West Coast and maybe around the rest of the country, as you know, have been offering premium rates on their MMDAs. As a result, they're having trouble [lending out] that money profitably, so they have plenty of incentive for the moment to let their big CDs run off. They are trying to find ways to put all this money in the MMDAs to work.

MR. AXILROD. Yes, that's right. There could be a much more rapid runoff than we've had, which would lower the growth of M3 some. But I think we'd still have a fairly big M3 growth here--bigger than December for sure.

CHAIRMAN VOLCKER. I don't see why they are having any trouble making money, John, when they're offering 11-1/4 percent and a bonus and the prime rate is 11 percent. You just do enough of that and you make a lot of money.

MR. BALLE. Not according to them.

MR. PARTEE. What, on the compensating balance?

CHAIRMAN VOLCKER. Let me ask a question. You probably don't have any feel for this, but one of the unknowns here is that we expected some limited but still significant portion of these MMDAs to come out of NOW accounts or demand deposits. On the face of it, the



figures don't seem to suggest that. Does anybody have a feel for that?

MR. TIMLEN. Paul, in New York we only have information from 2 or 3 banks and it's all switching basically within the M2 category, with very little from the M1. That is just from 2 or 3 specific banks that have told us what their situation is.

MR. BLACK. Paul, Bob Black. We have [responses] from only 17 banks so far on our survey, but it appears that 13 percent came out of old M1.

CHAIRMAN VOLCKER. My word! If it was that much, it could be a huge amount.

MR. AXILROD. Yes.

MR. BLACK. Yes, that's right. It's only 17 banks, but we do know--don't we Steve?--that the shift-adjusted rate was probably well in excess of 9.1 percent in December.

MR. AXILROD. Well, it's very sensitive to these percentages.

CHAIRMAN VOLCKER. If you assumed any of it came out of M1, you would get "shift adjustment" of more than what the actual figure was.

MR. AXILROD. Do you mean on M1?

MR. BLACK. I'm just saying M1 was somewhere in the double-digit range for December. How high, nobody knows. If any change--

MR. AXILROD. Yes, probably. We have assumed very little shift, but I'm sure whatever little shift there was could push it closer to the double-digits.

MR. BLACK. We just did some figures on this and [I don't know] if they amount to anything, but we came up with some shift-adjusted figures that were way up in the double-digit range depending on what assumptions we used. One came out 25 percent and one came out 28 percent. But I wouldn't put much credence in those because this is a very small sample.

MR. AXILROD. Our figures on the shift out of M1 came nowhere near yours, Bob. Our estimate is really below 5 percent; it's more like 2 or 3 percent.

MR. BLACK. You have more data; that's probably more realistic. But [unintelligible] on the shift-adjusted rate for December, unfortunately.

CHAIRMAN VOLCKER. Any more enlightening comments on these figures?

MR. BALLE. Well, Paul, just a reaction to these figures Steve has been reporting: The one that surprised me, at least based on what we thought might happen when we were looking forward at the December FOMC meeting, is how much M2 seems to have been impacted

here. It's certainly more than I had expected. I find that Steve's evidence, which is admittedly and necessarily somewhat rough, is fairly persuasive in the sense that certainly to some extent M2 has been impacted and that, therefore, the target that we had set for the December-to-March period probably needs some upward adjustment.

CHAIRMAN VOLCKER. Well, I can't disagree with that as a qualitative conclusion. I don't quite know what to do about it because I don't have any confidence whatsoever about what other number we would put down. What I would suggest in that connection is that we look at this for another week and see whether we can make any more sense out of it. I'm not terribly sanguine in that respect but [suppose] we just sit here and not do much; we're not taking any action to ease beyond what we discussed at the last Committee meeting. I don't know whether we [should] take some moderate action in the other direction, but I'd just be inclined to sit here for another week and see whether we can make any sense out of this instead of thinking of revising a directive in our ignorant state at the moment. Let's at least wait another week.

MR. BALLE. Well, Paul, I would certainly agree with that. I guess where I would come out--to put it a bit differently--is that I would be reluctant to act too quickly here to clamp down.

CHAIRMAN VOLCKER. I certainly share that view. And that's equivalent, or the substantive result, of what I'm suggesting for the next week anyway.

MS. TEETERS. What does this imply for the operation of the Desk, Steve?

MR. AXILROD. Well, we have been going along with the \$200 million assumption that the Committee had set on borrowing. So, we've been accommodating the nonborrowed to whatever changes in reserve requirements and aggregates have been involved in these figures.

CHAIRMAN VOLCKER. Mr. Altmann has to interrupt again for some reason.

MR. ALTMANN. Yes, President Horn.

OPERATOR. Did she get through to you?

MR. ALTMANN. No, sorry.

OPERATOR. She's going to dial you directly.

MR. ALTMANN. Well, I think it's a bit late now, anyway.

OPERATOR. All right, I'll tell her.

MR. ALTMANN. Thank you.

CHAIRMAN VOLCKER. Well, I don't know whether it's late or not.

MR. ALTMANN. All right, have her dial.

CHAIRMAN VOLCKER. I want to raise another matter.

OPERATOR. All right, she'll be calling.

MR. ALTMANN. Thank you.

CHAIRMAN VOLCKER. We did, of course, contemplate this situation in the directive. I don't think we contemplated it in quite the degree to which it exists, but there is an escape clause in the directive for the moment. If that's the general view, I would not do anything at the moment, but continue to look at this. I have to be gone the first part of the week, in Europe, but maybe we should be thinking about having a further conversation next Friday.

MR. PARTEE. I think that's certainly the right course, Paul. We can't make heads or tails out of these figures. There's a big shift adjustment occurring because the institutions have chosen to get back their rightful share of the market. It's impossible to see what the stock adjustment is and it's certainly incorrect to annualize it, whatever it is.

CHAIRMAN VOLCKER. Whatever you say, even if we could make out these numbers, my suspicion is they're going to look high. As I said before, they've been running high for some months. Put that together with economic activity and it looks to me like we are going to get, even on an adjusted basis, a further decline in velocity which will make the sixth consecutive quarter--I guess not technically consecutive because there's one quarter that interrupted it slightly--of a downward trend of some size in velocity. That is unprecedented and brings me back to our yearly problem as opposed to our weekly problem. I don't know whether anybody has any bright new ideas on that. Steve did write something, which I have seen. The course that he chose, maybe sensibly, was writing something that isn't quite a directive, but a basic summary as nearly as he judged any consensus of what our conclusion might be on this matter. I think it's a reasonable sense of what that discussion was. Whether it's reasonable in face of the problems that we have for 1983 in judging precisely how we want to approach this, I don't know, considering what is going on. But it may be worthwhile, if you agree, just to send out something like this to you. It's not a draft of anything, really, although it almost sounds that way. But I don't consider it a draft of anything. I'd like to see to what degree this captures the spirit of what people were talking about as a focus for making any other telephonic comments that people want to make before we meet again. Does that sound like a useful or a counterproductive idea?

MR. BLACK. It sounds useful to me, Mr. Chairman.

SPEAKER(?). I agree.

MS. TEETERS. May I ask a question?

CHAIRMAN VOLCKER. Mrs. Teeters.

MS. TEETERS. I'm just curious whether any of you have noticed any problems in the money market mutual funds as they unwind and disinvest?

MR. STERNLIGHT. Peter Sternlight on this. We've been talking to some of them, especially in that first week or two when they had heavy outflows, and it looked like they were coping with it pretty well through having positioned themselves to have greater-than-normal liquidity. And in the last couple of weeks, as you have seen, those outflows have tapered off a good bit. And we even hear from the market that some of the funds are beginning to reach out a little, in a gingerly way, to get somewhat longer maturities. So, they seem to feel that the worst of their hemorrhaging is over.

MS. TEETERS. Thank you.

CHAIRMAN VOLCKER. I don't know whether anybody was scratching their heads over the holiday season and beyond and whether anybody has anything they want to comment on in terms of our general problem for 1983. Let me ask that general kind of structural approach question. And if anybody also wants to make any comments about what they see going on in the economy, this is the appropriate time to do it. [Secretary's note: Silence.] I see you all were working very diligently and were filled with new ideas during Christmas and New Year's and beyond! I draw a complete blank?

MR. MORRIS. Well, Paul, this is Frank Morris. I don't have any new ideas but I have some old ones to state.

CHAIRMAN VOLCKER. That's fair enough. Do you want to repeat an old one with greater intensity?

MR. MORRIS. Very simply, what we're doing here in trying to assess the significance of these numbers as they come in continues to suggest to me that M1 and M2 are no longer going to be reliable yardsticks for monetary policy, not only now but in the future. In addition to these new accounts, we're seeing the money market mutual funds begin to respond--and I think that response will broaden--by offering unlimited checking on money market funds. So, this will further confuse the situation. I think we should not assume that once these new accounts settle down all further innovation in the way people manage their cash balances is going to come to a screaming halt and that, therefore, M1 and M2 will be useful guidelines for the future. I think until we face up to that fact, we're going to have continued trouble.

CHAIRMAN VOLCKER. But is the operational conclusion you draw from that more emphasis on M3 and C and L or something different from that?

MR. MORRIS. I would say "yes" with regard to M3, which I think is the only reasonably unimpaired monetary aggregate that we have left, although it is subject to shifts out of market instruments into the new accounts as well as the other aggregates. But adding to that some measure of total liquid assets or total debt will get us away from these enormous shifts due to financial innovation.

MR. WALLICH. Paul?

CHAIRMAN VOLCKER. Governor Wallich.

MR. WALLICH. You remember that the textbook says that when there's a shock to the money supply side, go with interest rates. In a way this is what has been happening. Now, the shock may settle down at the new higher level and then one can demonstrate that the demand for money has increased, everything else constant. One can go on from there and go back to the aggregates. If it turns out that the demand for money comes down again from this shock level, then one would have to take account of that and settle on new aggregate targets at a lower level. It would be very difficult to diagnose. But right now we're clearly in a situation of a money supply shock situation, which we shouldn't allow to feed through to the real sector.

CHAIRMAN VOLCKER. Does anybody want to make any comments on the business situation? Does anybody see any signs of change there from what they thought before?

MR. BOEHNE. I'm seeing more of what I saw before Christmas-- very slight improvement in the tone. I think it's mostly at the psychological level yet. Nobody has a lot of hard evidence that business is picking up, but there's a feeling that things probably will get a little better and the reports from the field seem to look up. But it's a very tenuous type of thing and it wouldn't take much to upset it. And I think any kind of significant backup in rates or any sense that the Fed may be tightening would kill it in its tracks because I don't think it's that strong yet.

MR. MORRIS. This is Frank Morris. I would second Ed Boehne's diagnosis. I think the economy is turning around here. We're seeing a pretty widespread improvement in the leading indicators and, of course, continued strength in the housing sector. But we're not going to get, at least on the basis of present evidence, the sort of strong cyclical upturn that we've seen in typical past recessions. And I think it would be vulnerable to any backing up in rates.

MR. BALLE. John Balles. I agree with what has just been said both by Ed and Frank.

CHAIRMAN VOLCKER. Does anybody have any sense of any conviction on the inventory situation? We've seen some reductions recently, obviously. And production has clearly been running below consumption just recently. But we could still be a long way from a turnaround there or we could not be. I just don't have any strong feel one way or the other. I don't know whether anybody has any conviction on that score.

MR. KEEHN. This is Si Keehn. The people I talk with say that they have their inventories down at such a very, very low level that any increase in final demand at all would result in a pickup in their production. On the capital goods side, they don't yet see that [pickup].

CHAIRMAN VOLCKER. I was talking to a lot of capital goods manufacturers the other day and none of them said they saw an increase in orders at this point. Does anybody have any questions?

MR. FORD. This is Bill Ford in Atlanta. I'm in the middle of a board meeting right now that I had to step out of, and our directors just reported that in the Southeast we are starting to see

some pickup in forest products and that in certain regions around here there are some very sharp improvements in housing conditions and so on. But I guess I'd go along with the consensus that says any sharp tightening in response to these money numbers would certainly be questionable policy. On the other hand, looking at what is happening to sensitive commodity prices, including gold, silver, copper, and various other things, and the dollar against certain currencies, I think it would also be a serious blunder at this point to give any sign of pushing rates down further in the context of the uncertainty that we're facing as to what's happening both in the real economy and with the money numbers. So where I'd come out would be to even keel it for awhile until we have better information.

CHAIRMAN VOLCKER. Okay. I appreciate it. If there are no other comments, tentatively anyway, we'll plan to do something like this next Friday. We'll send something out to you. Thank you.

END OF SESSION